



**Legislative Department
Seattle City Council**

August 4, 2014

TO: Select Committee on Utility Strategic Planning

FM: Meg Moorehead and Patricia Lee, Council Central Staff

RE: Seattle Public Utilities (SPU) 2015-2020 Strategic Plan

EXECUTIVE PROPOSAL

The Mayor has proposed a Strategic Plan (the Plan) that will guide SPU water, wastewater, drainage and solid waste services and rates from 2015 through 2020. The Plan includes a financial “baseline,” which covers the cost of continuing 2014 services and the cost of service expansions to meet firm regulatory requirements. On top of the baseline, the Plan adds new and expanded services at a cost of \$169 million over the six-year period. As a reduction from the baseline, the Plan includes \$125 million over the six-year period in savings from efficiencies and reductions in lower priority programs. As an indicator of efficiency savings, SPU proposes to have no more positions in 2020 than the 1,432 positions it has in 2014. To kick-start plan implementation, 18 new SPU positions will be proposed in the 2015-2016 budget, with an equal number of positions phased out by 2020.

By adopting the Plan, Council will be endorsing over \$6 billion in SPU spending and a 31% rate increase over the six-year period. Budgets will increase from \$925 million in 2014 to over \$1 billion/year from 2015-2020. Average annual combined rates will increase 4.6%/year, which is lower than the approximately 7%/year increases since 2004. By 2020, typical single-family monthly bills will be about \$51 higher, rising from \$156.99 in 2014 to \$207.71. The Plan’s spending and rate increases will be implemented through future budgets (starting with the 2015-2016 budget) and future rate ordinances (starting with solid waste rates delivered this fall).

POTENTIAL AMENDMENTS

At its July 28 meeting, the Select Committee on Utility Strategic Planning (Select Committee) discussed the key policy choices related to SPU’s proposed Plan:

- Reductions and Efficiencies (the Plan proposes to save \$125 million over 6 years).
 - Does the Council agree with the proposed programmatic reductions (including reduced water quality education and solid waste prevention efforts) and the associated savings of over \$90 million over the 6-year period?
 - Should the Plan set labor efficiency targets in both dollar terms (\$6.4 million/year saved by 2020) and number of positions (no net increase in positions between 2014 and 2020),

or use only dollar targets with the position count as a measurement toward the dollar target?

- New and Expanded Spending Levels (the Plan proposes to spend \$169 million over 6 years). Does the Council agree with the proposed new and expanded services (including achieving carbon neutrality, doubling street sweeping, and 8 human resources full time equivalent staff [FTEs]) and the associated spending?
- Forecast Assumptions.
 - Should the Plan include \$1.5 million/year of savings from the lower-than-assumed interest rates and bond refunding achieved in recent 2014 bond sales?
 - Should the Plan assume lower than 7% health care inflation in recognition of recent health care cost containment and likely lower inflation factors in the 2015-2016 budget?
 - Should other assumptions (such as use of a \$12 million 2018 payment from the Cascade Water Alliance and the yearly collection of \$1.2 million as a risk placeholder) be changed to reduce rates?
- Low-Income Assistance. Does the Council think that a longer schedule for doubling low-income assistance enrollment is more realistic and should be reflected in the Plan?
- Firm Cap vs. Flexible Road Map. Is it Council's expectation that future SPU budgets and rate proposals be no higher than shown in the Plan?

The following potential amendments to the Proposal have been identified so far:

1. Labor Efficiencies

A benchmarking consultant identified \$15.7 million/year in potential efficiencies by 2020. Due to uncertainty about which efficiencies can be implemented in the planning period, SPU chose a target of \$7.4 million/year in operations and maintenance (O&M) efficiencies by 2020 including \$6.4 million of labor savings. These savings are included in the Plan-recommended rate path. A commitment also would be made to have no more positions in 2020 than in 2014. Although the position count can be a helpful measure of progress toward the dollar savings, as a co-equal goal it may not be the best indicator of an effective, efficient workforce and may create unintended consequences. A position cap may unnecessarily constrain work groups' ability to get the work done without using consultants, temporaries or other means. This may be counter to other City objectives in providing apprenticeships, job opportunities, training and career mobility to existing employees. And, SPU has not yet determined how they will monitor the no-net-position-increase target through annual tracking of the number of positions, use of temporaries, or consultant use. Options include:

Option A: Agree to proposed labor efficiency dollar target, without a commitment to no net increase in positions

Agree with the Plan proposal to remove \$6.4 million/year of labor efficiencies by 2020 from the rate path. Do not set a target for number of positions in 2020. In addition, request that SPU establish a 2014 baseline of funding for consultants and contracts for outside labor and identify how those costs will be tracked over the 6-year period. Use both the number of positions and consultant spending to evaluate progress toward the labor efficiency dollar target.

Option B: Agree to proposed labor efficiency dollar and position targets, but add consultant spending as an evaluation tool

Approve the Plan as proposed by SPU, which includes \$6.4 million/year of labor efficiencies by 2020 and a commitment to no net increase in 2020 positions compared to 2014. In addition, request that SPU establish a 2014 baseline of funding for consultants and contracts for outside labor and identify how those costs will be tracked over the 6-year period. Use both the number of positions and consultant spending to evaluate progress toward the labor efficiency dollar target.

Option C: SPU's Proposal

Approve the Plan as proposed by SPU, which includes \$6.4 million/year of labor efficiencies by 2020, and a commitment to no net increase in 2020 positions compared to 2014.

2. New and Expanded Spending Levels

Carbon Neutrality

The Plan proposes an Energy Efficiency & Carbon Neutrality Action Plan that adds \$1.3 million over the 6 years so that the utility will have zero net carbon emissions (also known as being “carbon neutral”). While energy efficiency of SPU equipment and facilities is part of the action plan, carbon neutrality is proposed to be achieved through purchase of carbon offsets. The type of offsets and their location are not specified. If emission reductions that have multiple benefits (such as reduced carbon emissions *and* reduced traffic) for local residents are more important than immediate SPU achievement of carbon neutrality, the Council could specify that action plan spending be within the boundaries of Seattle or King County, and remove the 2015 neutrality deadlines. Options include:

Option A: Local Emissions Reduction Focus

Require Energy Efficiency and Carbon Neutrality Action Plan spending to be limited to emission-reduction actions or offsets in the City of Seattle if possible or King County if no options are available within the City limits. Recognizing that offsets outside King County likely are needed for SPU to be carbon neutral, remove the 2015 deadline for becoming carbon neutral.

Option B: SPU's Proposal

Buy carbon offsets to achieve carbon neutrality in 2015.

Human Resources

The Plan devotes 8 positions to expanding SPU's human resource (HR) functions. Four positions would be added in 2015 including 3 new positions and 1 position that is redirected from other SPU functions. Four more positions may be redirected in 2018 if SPU determines that implementing the action plans requires more SPU HR resources. If a no-net-position-increase target is adopted, the labor cost component of this action plan will be offset by position reductions elsewhere in SPU's organization.

There has been a long-standing discussion about the right balance of centralized HR services provided by the Seattle Department of Human Resources (SDHR) and HR services within each department. SDHR has hired a consultant to begin the work of assessing HR functions citywide. SPU currently has 27 HR staff which is more than any other department except for City Light. SDHR currently has 103 positions. The Council has, and continues to have, a commitment to the City's workforce and providing the resources needed to support them so they can effectively and efficiently provide City services. The Council also has a commitment and responsibility to the ratepayers to make sure City resources are being managed prudently. Finally, the Council recognizes that the SPU Director needs some flexibility to organize and manage his department staff resources. The Select Committee could amend the resolution to balance these three objectives. Options include:

Option A: SDHR/SPU Coordination

Require the SPU Director, before reallocating any more positions to SPU HR functions in 2018, to consult with the SDHR Director and consider any changes made to HR functions citywide in assessing the need for additional SPU HR positions. This consultant and assessment should be addressed in the 3-year Plan update.

Option B: SPU's Proposal

Approve the Plan as proposed by SPU, which adds \$8.8 million over 6 years and devotes 4 FTE (in addition to 27 FTE in the baseline) in 2015 and 4 more in 2018 to expanded human resources services including staff performance management, leadership development, and safety programs to reduce absences.

3. Forecast Assumptions

Bond Interest.

The Plan assumes 4.5%-5.75% bond interest rates with no refinancing of existing bonds. Yet in the last couple of months SPU sold drainage/wastewater and solid waste bonds at 3.6%-3.7% interest and refinanced existing bonds, saving \$1.5 million/year compared to Plan estimates. Options include:

Option A: Reflect Bond Interest Savings

Remove \$1.5 million/year from the Plan's spending and rate path to reflect the lower interest from the 2014 bond sales.

Option B: SPU's Proposal

Approve the Plan as proposed by SPU, which includes \$1.5 million more in bond interest that will actually be paid for bonds sold in 2014.

Health Care.

The Plan assumes a 7% per year growth in health care costs but the City's soon-to-be-set 2015-2016 health care inflation assumptions are likely to be lower to reflect much slower cost growth between 2014 and 2015. Even if last year's slow growth is not repeated, the 7% is higher than the 6.7% average annual increase from 2007 through 2014. The rate path might be reduced a little by assuming slightly slower growth (perhaps 6.9%/year), saving \$400,000 over the 6-year period. Options include:

Option A: Assume 6.9%/year growth in health care costs

Option B: SPU's Proposal

Approve the Plan as proposed by SPU, which assumes a 7% per year growth in health care costs.

4. Low-Income Assistance.

The Plan assumes a doubling of enrollment for low-income utility assistance by 2018. The doubling shifts up to \$2.9 million/year to regular-income ratepayers who will experience a 0.2% higher average annual rate increase. The Mayor recently released a promising plan to increase enrollment, but past experience suggests a rapid increase will be difficult. The City has tried to expand enrollment by providing new types of assistance (such as emergency bill payment assistance), increasing the number of people eligible, extending enrollment periods for seniors, and increasing outreach efforts. Yet enrollment is less than 20% of those eligible and has risen very slowly from 10,300 in 2000 to 11,963 in July 2014. To reduce the financial impact on regular-income ratepayers while striving to double enrollment, Council could incorporate into the rate path a more conservative schedule for meeting the goal. For example if the goal is achieved by 2022, average annual rate increases for regular-income ratepayers would be cut by 0.1%, reducing typical single family bills by about \$16/year in 2020.

Option A: Assume low-income assistance enrollment will double by 2022

Assume that low-income assistance enrollment will double by 2022, but if data show faster enrollment, allow rate studies to exceed the approved rate path to cover the costs of increased enrollment.

Option B: SPU's Proposal

Approve the Plan as proposed by SPU, which assumes a doubling of enrollment by 2018.

5. Firm Cap vs. Flexible Road Map

SPU proposes to update the Plan every 3 years to maintain a rolling 6-year planning horizon. The first update covering 2021-2023 services and rates would be submitted for Council approval in 2017. For the first years of the Plan, Resolution 31534 asks SPU to

submit budgets and rates “in support of, and consistent with” the adopted Plan and its rate path. No similar direction is given for budgets beyond the proposed 2015-2016 budget or for rates adopted in 2017 and beyond. Presumably, Council would not be concerned if circumstances allow SPU to submit a budget or rates lower than those in the Plan as long as promised service levels are maintained. But if changed circumstances result in higher costs or lower revenues, the term “in support of, and consistent with, the Plan” may not give clear enough direction. The Council could change the wording to specifically state that budgets and rates for 2015-2020 are expected to be no higher than those adopted in the Plan. Any changed circumstances driving higher rates could be included in the first Plan update covering 2021-2023 budgets and rates.

Option A: Provide policy direction that future SPU budgets and rates should be no higher than the rate path in the adopted Plan.

Amend the resolution to state that budgets and rates for 2015-2020 should be no higher than the rate path in the adopted Plan absent an extraordinary change in circumstances.

Option B: SPU’s Proposal

Adopt the resolution as proposed by SPU, which asks SPU to submit a 2015-2016 budget, 2015-2017 water rates and 2016-2018 drainage and wastewater rates that are “in support of, and consistent with” the adopted Plan and its rate path. No similar direction is given for other budgets or rates within the Plan’s time frame.

NEXT STEPS

Today’s policy direction will be incorporated into a new version of the Resolution 31534. A Select Committee vote on the amended Plan and resolution is scheduled for next Monday, August 11.